

Annual Investor Letter 2020



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Advisory Services

LONG TERM
HITPICKS
QUANTAMENTAL

As we bid farewell to a year, we would all like to forget but likely never will, here is a short note of some of the thoughts going on in my mind at this time.

The long term portfolio continued to perform as expected. It is comprised of strong businesses and our investment into the Pharma sector early in 2019. So, we were able to participate quite nicely in the pharma rally. As I have said many times, I believe the pharma and chemical sectors are in a secular growth phase and are likely to perform well for the next 2-3 years or more. So, the objective is to buy prudently and then sit and wait. The most important aspect in a long term portfolio is to wait patiently for the compounding to work its magic over time. The constant urge to do something is one of the worst enemies for an investor. It pays to always remember that investment return and frequent activity are not correlated in any way.

The markets today are overvalued by any methodology you care to use. The future continues to be uncertain, as always. The only thing that is keeping the markets flying high is the global liquidity flows. But the counterpoint is, the tap does not look to be stopping anytime soon.

Sometime this year, we are likely to see a sharp correction. Unfortunately, investors across the world have probably taken the wrong idea from both the global financial crisis in 2008 and the Covid crisis in 2020. That the central banks will bail them out always. What people seem to forget is that money printing can never be a long term solution. It is a kick-the-can down the road kind of approach. The more debt-ridden the global economies become, the longer and harder it will be to get back on to real prosperity. The new investors who have never really seen a prolonged bear market, which includes people like me, who have been in Indian markets for only about 20 odd years, cannot really fathom the outcome of a long drawn bear market. In fact, to be fair, we Indians have never really seen a long drawn bear market which also coincided with a recession or prolonged phase of low growth in the real economy, the likes of which Japan has seen for 30 years from the late 80s till about a few years back.

There has been a lot of global changes in socio-politico-economic structures which have made macro analysis a very interesting but utterly worthless exercise to do!! Nevertheless, as investors, we need to be aware of the context of our investments.

The next decade is more likely to focus on themes around technology adoption in different industries, climate change, supply chain redundancy creation, nearshoring or insourcing of manufacturing, more social-focused spending led by ESG. The more adoption of technology we see, the more jobs moves away from the unskilled to the skilled and the more social and economic divide increases, the more social and political strife we will see. It is a vicious cycle and I don't know how it will play out. But the global socio-political situation is what really scares me. Emerging countries in Asia and Africa are better placed for economic growth with their young populations for the next 2-3 decades. And we are likely to see this slowly playing out. With the backs to the wall for all central banks, the flow of cheap money is unlikely to abate anytime soon. It's like being on drugs. Once you get started on it, you can't really get off it that easily without going through an enormous amount of pain.

This year I launched two different advisory services in addition to the long term advisory that I had started last year. The first one was Quantamental which was started in March and then Hitpicks, based on technofunda

principles, in July. Both were to add to the different needs and mindsets of investors and also to address my need to diversify my style of investing.

Quant was a result of a couple of years of delving into quantitative, systematic and trend-following techniques. All this started as a result of trying to fill my own lacunae in investing that I could identify. Being a quality-focused long term investor, I was realising that I could not capitalise on short term strong business and stock price momentum. In addition, due to my interest in behavioural psychology, I was convinced that the biggest determinant investment result is the mindset. Any system that could capture these short term bursts and also codify the big decisions required during an investment would be beneficial in getting better results than otherwise possible. As I keep learning, I intend to refine and improve the current Q30 system. I also keep exploring other types of systems. Primarily there are three types of systems possible - momentum, mean-reversion and shorting. The final objective, at some future point in time, is to be able to have these three types of systems running concurrently or a single system which blends all three.

The second advisory I started was Hitpicks with Hitesh Patel. Hitesh has been a friend a mentor in technical analysis for me over the last couple of years. It is an exploration into the world of technofunda. Hitpicks is not intended to be a short term trading advisory, where one gets "calls" to day trade or swing trade. As in the long term advisory, here also, our focus is on identifying good businesses which have some interesting technical chart pattern. The usual timeframe for a recommendation to play out is about 3-4 months. Like in any trading system, we have had a fair share of good and wrong picks. But, overall, I think we are on our way to meet our objective of good compounded returns over the next 2-3 years.

The focus for me continues to be able to generate above-market returns without taking a great deal of risk. I am happy making less money than the next person, but I am not willing to take any undue risk which will jeopardise my capital. So, the focus on quality first will continue.

As always, do keep sending in your thoughts, comments and questions. They do help me immensely in thinking about different aspects that I may not have focused on.

Wishing you a healthy, happy and enriching 2021.

Regards
Abhishek